When partnering with lenders through a request for proposal (RFP), establish a clear process and remain flexible

Establishing strong, collaborative partnerships with one or more lending partners is critical for successful delivery of affordable home energy lending. These partnerships are typically created through a request for proposal (RFP) process which can encourage market competition and help to attract the most qualified lending partner(s) for a program. Several Better Buildings Neighborhood Program partners found that their RFP process for partnering with lending partners made it difficult to attract responses or found that the responses they received did not meet their needs. These programs often reported receiving few or no responses; some issued multiple rounds of RFPs before receiving responses that met their criteria. Other Better Buildings Neighborhood Program partners experienced fewer obstacles to forming relationships with lenders by making their RFPs detailed enough to evaluate a prospective lender's ability to meet the objectives of their programs, while also offering enough flexibility in approach to attract qualified lenders and enable lenders to suggest alternative structures that could help programs meet their goals.

- The **Southeast Energy Efficiency Alliance's** [1] (SEEA) experience selecting lenders to be a part of a Regional Energy Efficiency Lending Program to support its consortium of regional programs began with a not so successful Request for Proposal (RFP) concept. SEEA initially thought that by issuing a RFP for several million dollars that it would receive multiple proposals from large banks with a regional footprint from which to choose from, but that was not the case. The program only received one proposal. SEEA took several months to regroup and elected to try a different approach. SEEA contracted with BLT Consulting to help negotiate and contract directly with smaller local credit unions, banks, and community development financial institutions to support select member programs. This approach proved to be much more successful. The one-on-one negotiations allowed the program to design lending programs and enter into agreements that were mutually beneficial to all parties (i.e., SEEA, lenders, and local programs). With the help of BLT Consulting, SEEA developed a standard template for contracts (i.e., lending agreements) that could be modified for each loan program. These contracts have the benefit of allowing the program to enforce specific elements of the program design when needed (i.e., having lenders adhere to credit score requirements). Also, the contracts allowed SEEA an explicit and direct way to pull back funding from underperforming lenders on a few occasions.
- To solicit lenders to participate in its residential energy efficiency program, **Energy Impact Illinois** [2] (EI2), used a detailed RFP based on **model templates** [3] provided by DOE. The RFP summarized the goals of the program, the requirements for energy efficiency upgrades, the financial expectations, and sample contract language. EI2's intent was to provide potential lenders with enough background on EI2's expectations for and requirements of the program, so the lenders could provide a response that met program needs and avoided lengthy and unproductive negotiations. EI2 also wanted to provide enough flexibility for respondents to propose innovative concepts or better solutions to program needs. To avoid considering projects that would not meet the program goals, the RFP and presentations at pre-bid conferences specified the requirements for what constituted an eligible upgrade project as well as the legal requirements ranging from historical preservation to reporting that respondents would need to satisfy, given that the project was utilizing ARRA funds as part of the Better Buildings Neighborhood Program. Furthermore, the RFP also included sample contract language around the particulars of loan loss reserves so that respondents would understand the requirements the program intended to impose. After lenders were chosen and during contract negotiations, lenders were provided with a proposed contract and asked to provide comments. Most of the financing respondents negotiated over specific details of escrow accounts and reporting requirements, but showed little pushback on the project eligibility or other programmatic details. Negotiations mostly moved quickly and with few significant barriers. All the contracts with program lenders included clear, time-framed deliverables in terms of quantity and amount of loans expected, and also included basic procedures for customers to access the program. Several of the financing programs fell far short of reaching their contractual lending volume. While the program had the option of terminating the contracts as a result, utilizing this option was far from ideal as it would clearly derail any forward progress for at least six months while contracts were terminated and new RFPs issued, not to mention generate a cascade of changes to marketing, communications, and other efforts. In retrospect, EI2 believes introducing additional incentives for performance or penalties short of termination for non-performance would have been helpful. EI2 also believes it would have been helpful to specify more definitive standards for customer service, availability of staff to process loan applications, and mandatory timeframes for reviewing and approving or denying applications.

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Links

[1] http://www.seealliance.org/
[2] http://energyimpactillinois.org/residential/
[3] http://www4.eere.energy.gov/wip/solutioncenter/finance_guide/sites/default/files/docs/financial_institution_rfp_template_1.pdf